

EXEMPTION CERTIFICATE MANAGEMENT:

A Guide to Building a Better Process and System



Regardless of what products you sell or what service you provide, managing sales and use tax exemptions is a critical part of a strong tax compliance process. However, exemption certificate management (ECM) often falls through the cracks, opening the door for confusion, lost time, audits, penalties and additional expenses for both your business and your customers. Having a comprehensive system in place that acquires, tracks and updates exemption certificates easily is critical to avoid these pitfalls.

Why is this so important? States are increasingly turning to technology-driven compliance requirements and enforcement measures as they seek to maximize revenues. As a result, they frequently conduct sales tax audits, looking for high levels of exempt sales that are ripe for inspection. Non-compliance, including missing,

invalid or expired exemption certificates, can result in high penalties and interest assessments if taxes are applied incorrectly or customers are permitted exemptions they do not qualify for. Paying penalties due to incorrect sales tax charges can impact your bottom line and profitability. Incorrectly applied taxes can also create tension in a company's relationships with its buyers, requiring buyers to take time-consuming corrective action, diminishing trust and decreasing the likelihood of future business.

Where you ship and where you have nexus dictates the exemptions you should be obtaining from your customer base, and having proof of these exemption certificates is critical. Without this documentation being easily accessible, searchable and retrievable, the time it takes to complete an audit can be cumbersome and your ability to justify the exemptions provided may be substantially diminished, leading to potential penalties, interest and adjustments.

In today's increasingly complex business world, it is crucial that different systems and processes are integrated seamlessly so important information is captured and utilized accurately and efficiently. An efficient ECM process that works with businesses' other systems, such as customer relationship management (CRM) or enterprise resource planning (ERP) platforms, can help simplify compliance and alleviate potential problems.

No matter what kind of process you currently have, whether it be manual, an internally built system, a document management system or a third-party provider, it is vital to have all relevant departments in your business involved in a centralized ECM process to keep track of your exemption certificates. This includes tax, credit, IT, accounts receivable, finance, sales and customer service teams.

WHAT ELSE CAN YOU DO TO STREAMLINE YOUR ECM PROCESS TO BOOST PRODUCTIVITY, IMPROVE CUSTOMER SATISFACTION AND HELP DEFEND AGAINST AUDITS?

➔ On the following pages are ten tips to improve ECM compliance and build a better process.

Top Ten Best Practices to Improve Your ECM Process and Compliance

1.

Have a Strong Corporate Governance Policy

What does your policy say about how you will handle exemption certificates? Who owns this policy and is accountable for checking that it is current and comprehensive? Does it allow relevant business units to have input about the practices and policy so the system works easily for everyone? What protocols are in effect to ensure compliance and adequate participation by all relevant parts of the business that utilize the ECM process?

Having an effective compliance policy in place where all relevant parties are represented and trained can help ensure everyone is on the same page when it comes to how to acquire, inventory and access your exemption certificates for customers. This can help build compliance confidence and lessen the risk of errors.

2.

Identify Gaps Early in the Process

It is crucial to identify not just data gaps, but process gaps and/or resource gaps, whether they reside in a business unit, a specific plant or somewhere else. Carefully document these deficiencies so you can take corrective steps, modify your process and update your corporate governance policy where appropriate. Communicate changes to the process to the right people, especially customer-facing staff who will be collecting the certificates and data from customers.

3.

Get the Correct Certificate, Early On, in a Customer-Friendly Way

Whether including forms in a credit pack or through some other format, it is important to obtain the proper certificates as early in customer onboarding as possible without impeding the sales process. Who is in charge of acquiring the certificates?

Everyone involved needs to adhere to a process of making sure the forms are completely filled out and include all necessary signatures, dates, registration numbers and any required purpose or business description. It is also important to double-check that the seller's name is correct and matches the entity, especially if there has been a merger or acquisition in the customer's company.

There should be effective communication to help the customer understand how important it is to remit all the exemption certificates needed to validate and exempt relevant transactions to keep their exempt tax status preserved. Having the right exemption certificates secured can help keep customers happy and your tax compliance process continuing to run smoothly.

Internally, this intake process should follow acceptable guidelines or the governance policy and go through all proper channels. Cataloging this correct data as soon as it is received can help with indexing and makes it easily retrievable by all relevant business units, especially when checking for exemptions that are about to expire or in preparation for audit defense.



4.

Make Sure the Right Certificate Ends Up in the Right Location in the Right Format

The certificate numbers, types of exemptions and corresponding forms should be in the right format for each jurisdiction, especially if the form is for multiple jurisdictions. This should be reflected in the ECM module and have registration numbers for all jurisdictions.

The certificates should be tied to the A/R system so it is easy to index by jurisdiction, expiration and exemption reason, as well as to the CRM system to ensure customer data is always up-to-date and accessible. This can increase effectiveness when retrieving and mapping information to update certificates about to expire or if audit defense becomes necessary.

5.

Clearly Communicate Back to the Customer

No matter what form of communication is being used (phone, fax, email, letter, etc.), communication of what is expired or insufficient (wrong form, was not signed and/or dated) should be clearly outlined. An easy way to remediate the problem should be created and provided to the customer. A solid process to solicit certificates or additional information using customer-facing teams will help avoid a customer being wrongly taxed and resulting customer service issues.

6.

Realize Importance of Data and IT

Having solid data is paramount. Not only must you have updated and properly completed exemption certificates, but capturing and inputting the bill to/ship to pieces means it will be much easier to match the proper certificates when needed. This will also provide the ability to report on missing exemptions needed. All transcriptional data should be connected throughout the process – from order to fulfillment and billing – so there is visibility to the exemption along the entire quote to cash or selling process.

You can also use this information to communicate to customers when you need additional data or to renew a certificate that is about to expire. More importantly, when audit assessments and defense becomes a factor, having all of this data easily available and current can help protect against penalties, accruals, reductions and interest.

7.

Provide Access to All Relevant Parties

Your ECM process should grant the ability for employees across all different business units to access the system as needed. Whether it is customer service, sales or credit helping acquire certificates or update them, any relevant department should have an easy way to access, view, retrieve or input the most current certificates within one master data source and reporting system. This eliminates redundancy in the form of multiple requests, and provides one centralized, updated system to ensure accuracy.



8.

Use Templates/Intranet

Whether mailing a letter, sending a fax or emailing, the more effective the language asking a customer for information, the better the result. There is no need to reinvent the wheel each time a certificate is needed. Having a clear timeline for customer outreach and template letters and scripts will make the collection process efficient.

At the outset of communication, clearly outline what is needed from the customer and why. Consider a mailing or contact policy “campaign” with several steps of increasing urgency to promote action by the customer. Give customers an easy way to remit forms and certificate information, whether it be a web-based library with PDF editable forms, a wizard where they can complete the information and sign directly online, or another simple tool or method.

Have multiple employees review the certificates to make sure they are complete and that this system for capturing information and checking it conforms to any rules, methodology or governance policy your company has adopted. These employees should all have access to your intranet or repository that has the policy, forms library, sufficiency rules and the complete collection of updated exemption certificates.

9.

Document Your Knowledge and Approach

Creating a solid ECM process is a great foundation, but it is equally important to document the process for the next person who will be tasked with monitoring this system or for anyone who needs to learn the process. The more you know about the policy and how the system works, the easier it is to interpret it, solve problems and recommend beneficial changes. It also helps when mergers and acquisitions occur because a good process can help deal with change and allows for data to be easily transferred.

Sharing ECM knowledge and creating a replicable process not only helps you build good-will within the business and boosts your ECM skillset. Having a documented process also helps in the event of an audit. Being able to provide detailed information about your ECM approach can prove a business’ good faith attempt to be compliant.

10.

Network

You are not alone when it comes to exemption certificate challenges. Find contacts in your industry, function or geographic area who are experiencing similar pain points to knowledge share. There are consultants, conferences and technology professionals who can also help.

Benefits of an Automated ECM Process

Implementing an integrated ECM solution that provides the process management and audit defense you need is imperative. Since exemption certificates are one of the first places auditors look, automating certificate management and validations closes holes in the process and reduces audit risk.

Sovos CertManager creates automated workflows that are tailored for all transaction types and feed into a single database so records can easily be retained, recalled and compiled. This type of system also creates a straightforward way for you to have a single resource for:

- ▲ Customer inquiries
- ▲ Exempt status validation
- ▲ Internal compliance checks
- ▲ State audit response defense

Most importantly, a proven and stable ECM program saves time and money from an operational standpoint as well as in audit defense.

The Sovos Intelligent Compliance Solution

Sovos CertManager reduces burdens and safeguards businesses from risk and penalty exposure through:

» SCALABILITY

Acquiring certificates, reporting and audit defense are three key areas that must scale up and down efficiently, with no gaps. Sovos provides functionality that helps your team do their jobs despite a constantly fluctuating number of customers with the highest level of speed and accuracy. The system is able to grow as your business expands customers, exempt product types and adds new business units.

» SECURITY

Protecting the confidentiality of your customer and certificate data is extremely important, and a solution that isolates your certificates and customer data from those of other customers is essential. The Sovos cloud-based solution provides an economical service for virtually every ECM resolution today. The system is hosted in a SSAE 16 certified environment, ensuring the highest levels of security.

» AUDIT DEFENSE

If and when your business is faced with an audit request, identifying your possible exposure and gathering proof of exemption status should be automated, thorough and quick. Sovos provides full visibility and custom reporting capabilities to easily validate your compliance and create batch exports for auditor review. With CertManager, companies can easily match auditor's lists with relevant exemptions to provide all the necessary information clearly and quickly to the state auditor or any other relevant parties.

Sovos CertManager does ALL of this to streamline the exemption certificate process, relieve pressure on internal teams and minimize the risk of non-compliance.

About Sovos

Sovos is a leader in global tax, compliance and business-to-government reporting software, safeguarding businesses from the burden and risk of compliance in thousands of tax jurisdictions around the world. Sovos Intelligent Compliance Cloud offers a proactive approach to tax compliance and reporting obligations that supports productivity, rather than hindering growth. With a 35-year track record of accurate and complete regulatory analysis and a global suite of software solutions, Sovos helps finance, tax and HR professionals in over 5,000 companies, including half of the Fortune 500, stay ahead of complex and fast-changing government regulations. Based in Boston, Sovos has offices throughout North America, Latin America and Europe.

Contact Us Today

Find out how we can put these solutions to work for you.

+1 866 890 3970
www.sovos.com/contact

Boston, Minneapolis, Atlanta, Boulder,
London, Amsterdam, Santiago and São Paulo